INTRODUCTION

1.1 Background

The commercial real estate market worldwide is increasingly dominated by institutional investors. This presents a challenge to private real estate investments because individual properties are not bought and sold on a regular basis like stocks and bonds (Kohnstamm, 1995). Unlike the developed countries that use stocks and bonds, financing of real estate in Uganda is predominantly through mortgage financing.

Mortgage financing refers to a loan secured by collateral of some specified real estate property that the borrower is obliged to pay back with predetermined set of installments. (Bienert & Brunauer, 2006) The loan is usually for the purchase or construction of housing estates by individuals or companies. Ugandans have realized that with the ever increasing rental costs, it would be more beneficial to take a mortgage and acquire property as one would be assured of invariable monthly payments due to fluctuations (Isagayita & Kiyingi, 2008).

For one to access a mortgage easily and cheaply there is need for bonding capital, bridging capital and social networks. According to Pittman, (2008), obtaining a mortgage in today's mortgage market is a complicated process as it involves many procedures like identifying the best service provider with the best interest rates. When reaching a decision on a mortgage, borrowers might feel compelled to use their social networks for information and guidance. Access to and use of social capital influences the degree to which borrowers make informed decisions. Social capital is anything which facilitates the achievement of goals that couldn't be achieved in its absence or could be achieved only at a higher cost (Durlauf & Fatchamps, 2004). Family and friends in Uganda have been instrumental in educating consumers about the mortgage options and what to expect throughout the process. They instruct borrowers on

how to negotiate for a better terms and what questions to ask their lenders. If borrowers are quoted an interest rate, they often ask others to verify whether the interest rate is good.

Furthermore, Commercial real estate is one of the most important asset classes in institutional investment portfolios. Institutional investors typically hold it through co-mingled investment funds, real estate investment trusts or in separate accounts (Fisher, 2005).

The real estate sector in Uganda has seen Property developers who have recently entered the market and have innovatively teamed up with a number of local and international banks present in Uganda to extend mortgage services to a number of Ugandans.

Companies like the Government owned National Housing and Construction Corporation and Private Property Developers like Akright Projects, Kensington Real Estate Company, Turipati Developments, Pearl Real Estate Developers and Jomayi Property Consultants have worked out schemes through which middle income earners can access loans for the purchase of real estate through banks.

Despite of all the above, the residential, commercial and office buildings that the real estate developers have Built remain with a 50-70% occupancy,(Agaba *et al*, 2009). For example Kizito Towers, Kalungi Plaza, Kurimira Towers, Ivory Plaza and King Fahad Plaza have most of their top most floors unoccupied. According to the Agaba *et al*, (2008), Uganda's prime rents have declined by up to 20% from a decade ago on the back of increased supply which caused the half occupancy of these buildings. Rugasira (2007) states that prime office rents averaged $16 a square meter while yields remained at 11%. The retail segment continued to attract the highest rents at 25$ a square meter but yields were lower 10%. In 2008, Rugasira reports that commercial office space was going for $10-$15 per square meter per month, while retail shop space was $12-$20 per square meter per month. In Buziga, one of the suburbs in Kampala, building on an 11 decimal stand on sale asking price is 600million shillings', currently a four bedroom house in a prime location brings $5000 in rent per month

and a return on investment of 8% from the $1000-2000 of rent for 2008**,(**Agaba *et al***,**2009). By keeping the rental fees consistently high, it's obvious that property owners run the risk of affecting demand and alienating potential and existing tenants.

1.2 Statement of Problem

The performance of real estate remains unsatisfactory as many residential; commercial and office spaces are unoccupied **(***Agaba et al*, 2009**).** This may be attributed to the weak Social Capital and inaccessible Mortgage Financing.

1.3 Purpose of the Study

The purpose of the study was to examine the relationship between Social Capital, Mortgage Financing, and Real Estate Performance in Kampala.

1.4 Research Objectives

i) To establish the relationship between Social Capital and Mortgage Financing

ii) To establish the relationship between Mortgage Financing and Performance of Real Estate.

iii) To examine the relationship between Social Capital and Performance of Real Estate

1.5 Research Questions

i) What is the relationship between Social Capital and Mortgage Financing?

ii) What is the relationship between Mortgage Financing and Performance of Real Estate?

iii) What is the relationship between Social Capital and Performance of Real Estate?

1.6 Significance of the Study

The findings of the study will make the following contributions:

i) Provide relevant information and knowledge that will help financial institutions, real estate developers and real estate investors identify factors that may affect mortgage financing and performance of real estate and obtain knowledge on binding and bonding social capital and social networks that are influential in obtaining mortgage finance.

ii) Provide an understanding of the implications and impact of mortgage financing on the performance of real estate in Uganda.

iii) Provide relevant information to financial institutions in Uganda regarding whether people are dissatisfied with the mortgage terms and interest rates and how to go about it.

iv) Provide the Government of Uganda and in particular Ministry of Lands, Housing and Development with factors that are hindering real estate development in Uganda.

1.7 Scope of the study

1.7.1 Geographical Scope

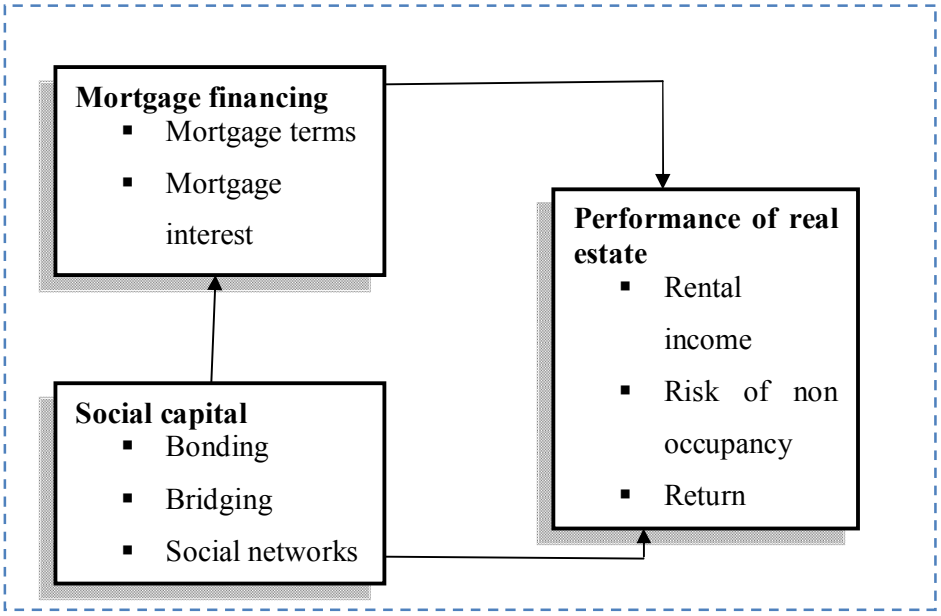
The Study focused on selected Real Estate Firms that operated in Kampala and Mortgage Beneficiaries in Kampala .Other areas were left out because Kampala is the area in Uganda where massive real estate development is being experienced and where there exists financial institutions that are giving out mortgages to the entire population.

1.7.2 Subject Scope

The Study examined Social Capital and access to Mortgage Financing as the independent variable and Performance of Real Estate as the dependent variable.

1.8 Conceptual frame work

Figure 1: The following conceptual framework is used to guide the study.



Source: Developed by Author based on Pittman, (2008), Liu *et al*, (1997), Fisher, (2005), Hammes & Chen, (2005), Ooi & Liow, (2004)

The conceptual frame work above illustrates the findings as conceptualized from extant business management literature which asserts that for borrowers, choosing a mortgage facility is not solely based on economics; social factors greatly influence an individual's choice, (Pittman, 2008). Borrowers make decisions based on the information they obtain through both formal and informal networks which should lead to enhanced real estate performance. This research is therefore exploring the extent to which the concept holds for Kampala in the Ugandan setting. In Mortgage Financing, the researcher examined the concepts of Mortgage

interest rates and terms where as Performance of Real Estate was measured basing on rental income,risk,and return on real estate. The third variable was Social Capital and the researcher looked at Community Social Capital bringing out the concepts of Bonding Capital, Bridging Capital and Social Networks.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a critical review of the research work that was done by various scholars in the field of Social Capital, Mortgage Financing and Performance of Real Estate.

2.2 Social Capital

2.2.1 Overview of Social Capital

Social capital is a sociological concept which has been applied to a variety of issues in recent times. According to Pittman, (2008), Social capital is the aspects of social organization that enable and improve the efficiency of both individual and collective action. That is not different from Webb, (2008), who brings out social capital as it focuses on the members of community who interact directly, frequently, in multifaceted ways, generating opportunities and potential for members of a group, who gain a competitive advantage in pursuing their ends. According to Warde & Tampubolon,(2001),'Social capital is the sum of the resources, actual or virtual, that accrue to an individual or group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition.' This definition emphasizes the sense in which social capital is thought of as a personal resource and that it may be deployed to personal advantage in a variety of contexts. Despite the multiplicity of views about social capital, the consensus is growing in the literature that social capital stands for the ability of actors to secure benefits by virtue of membership in social networks, groups or other social structures.

According to Schuller, (1988), there are three key dimensions along which social capital can be measured:

Vertical vs. Horizontal which is the extent to which networks involve relationships amongst agents more or less equally located in the relevant hierarchy, as opposed to relationships between agents located at different levels.

Secondly, *Strong vs. Weak ties*: strong ties by definition create greater solidarity amongst network members, but these are not always functional, weak ties can be more effective because they entail access to a wider and more heterogeneous set of connections. Weak ties that link one to acquaintances from circles different from one's own are more valuable, for example in finding a job, than strong ties with relatives and close friends whose social world would be very similar to the job seeker (Fernandez, 2002)

Lastly *Bridging vs. Bonding*; bridging ties bring together heterogeneous members, whereas bonding ties link more or less homogeneous members.

According to Putnam (1993), there are some forms of social capital that are good for some things and not for others. Some forms of social capital are highly formal, where as others are informal. And yet, both of those constitute networks in which there can easily develop reciprocity, and in which there can be gains. Formal social ties are those that individuals have through their connections with social organizations that are deliberately set up to achieve specific objectives, often with established personnel, procedures, and regulations for meeting those objectives. Informal social ties are those that rest in relationships that are informal, intimate, and personal such as that exist among friends. There are evanescent forms of social capital and also quite regular forms of social capital, both formal and informal but one of the most important distinctions is between bridging and bonding.

2.2.2 Bridging and Bonding Social capital

Kim *et al*, (2006), explains 'bridging social capital' as bonds of connectedness that are formed across diverse social groups, whereas 'bonding social capital' cements only

homogenous groups. Not different from the former, Fernandez (2002) explains bonding capital as those ties that are exclusive, inward looking, and generally formed among people who are socially homogenous. Bridging networks, on the other hand, are those developed among people with diverse sets of interests and social backgrounds. Further, bridging and bonding capital can be explained by looking at the consequences of each. Bonding capital or dense networks, through its expectations for reciprocity and solidarity, provide social and psychological support for those inside the group. Bridging capital, on the other hand, connects people to social worlds and resources that exist outside of their inner circles. Social capital can also have negative consequences. For example, while bonding capital may create strong in-group loyalty, it can also create antagonism towards out-groups.

Bonding social capital refers to the intra-community ties that members can depend on in situations of need. Such ties can be a source of valuable services, ranging from house minding to job referrals and emergency cash. (Wallis *et al*, 2004)

Bonding social capital is derived from relationships between similar persons for example, those alike with respect to socio demographic and socioeconomic characteristics (Sjoerd & Sjak, 2003) where as Bridging social capital is derived from dissimilar persons at the same level of hierarchy. Bridging social capital may yield health benefits through these mechanisms as a result of acquired assets and information stemming from dissimilarities between individuals.

2.2.3 Social Networks

Social networks are a source of access to resources. (Wallis *et al*, 2004). Group loyalties may be so strong that they isolate members from information about job opportunities, foster a climate of ridicule toward efforts to study and work hard, or siphon off hard-won assets". Moreover, there is an abundance of empirical evidence from developing countries, such as

Kenya (Narayan and Nyamwaya, 1996), Rwanda (World Bank, 1989) and Haiti (White and Smucker, 1998), that suggests that high levels of social solidarity within impoverished local communities generate sufficient social capital to help them cope with – but not overcome – the negative effects of governmental corruption, geographical isolation, political exclusion and social polarization.

2.2.4 Importance of social capital

According to Wallis *et al*, (2004), social capital will enhance total factor productivity by facilitating the development of effective institutions and economies of scale; Reduce transaction costs in high-trust societies because less explicit contracts will be required and fewer infringements will occur and may also facilitate the net accumulation of physical capital. Domestic investment and savings rates are likely to be higher under conditions of socio-political stability and greater financial certainty.

Social capital will also bring about a rich social environment of participation opportunities, allowing people to meet frequently, as a fertile ground for nurturing shared values and social norms of trust and reciprocity and leads to increased like hold of repeated interaction among agents and increased reputation (Webb, 2008).

At the individual level, social capital can influence career success and the creation of human capital. At the inter- and intra-firm level, social capital can facilitate inter-unit resource (including information) exchange and product innovation(Zhang & Fung,2006).On addition, Social capital may reduce transaction costs, enhance cooperation, facilitate entrepreneurship and formation of start-up companies, and strengthen supplier relations, regional production networks, and inter-firm learning. At the national level, social capital is one of the important factors affecting economic development and growth. In summary, social capital may result in capital accumulation, skill acquisition, innovation, the transfer of information and

technology, and reduced transaction costs .Alternately, low levels of social capital may impede economic activity by limiting the viable range of transactions (including the exchange of ideas), particularly in an environment of social polarization. Social capital has a diminishing marginal rate of return (i.e. social capital is more valuable in developing countries).

2.3 Mortgage Financing

2.3.1 Overview of Mortgage Financing

A mortgage is a debt with income producing property such as retail space, office, hotel or multifamily building as collateral (Xudong, 2008).Similar to the former, MC Donald & Thornton, (2008), define a mortgage as a particular type of loan for real estate. Furthermore, a mortgage can be both the instrument that pledges real estate as a security for an obligation and the process of pledging real estate as security (Hassanein & Barkouky, 2008).

Unlike the above scholars who define a mortgage in regards to real estate, Tuma, (2005) generally defines a mortgage as it occurs when owners pledge interest as security or collateral for a loan. This means that a mortgage can apply to any sort of property say a car, land or even a building.

It is any encumbrance, charge, debenture or loan agreement, whether legal or equitable, that constitutes a charge over an estate or interest in Uganda and is registered under the Registration of Titles Act.

The mortgage market comprises of primary mortgage market and secondary mortgage market. Primary mortgage market is the market which involves origination and servicing of mortgage loans secured by real estate (Hassanein & Barkouky, 2008).Mortgage secondary market on the other hand allows mortgage originators to sell mortgages that they do not wish

to hold in their portfolio and allows ultimate investors to hold mortgages assets without becoming involved in the mortgage origination and servicing.

2.3.2 Types of Mortgages

There are a number of different types of mortgages, but the most common are the fixed rate mortgages and the adjustable rate mortgages. Fixed rate mortgages are those where the creditor/investor assumes the interest risk while there is typically no prepayment penalty for the borrower (Yuying An, 2004); adjustable rate mortgages, hybrid mortgages or interest only mortgages. Fixed rate mortgages are advantageous because the monthly repayment is constant for the term of the mortgage and regardless of the behavior of the market interest rates, the interest rate paid by the borrower is the same for the life of the loan (MC Donald & Thornton, 2008).However, with adjustable rate mortgages, the interest rates are lower than on otherwise equivalent fixed rate mortgages. The reason is that the borrower is bearing some of the market risk.

2.3.3 Importance of Mortgage Financing

According to Loic and Lea, 2007, the following are the benefits associated with mortgage financing. They include:-

- Mortgage finance improves the operation of the housing market and the economy in a number of ways, both directly by facilitating transactions and indirectly by improving the environment in which transactions take place.
- Mortgages can provide good collateral. Mortgages are usually the lowest-cost way for households to finance general borrowing for consumption, non-housing investment, or business formation. Housing investors (e.g., for rental housing) use leverage to

increase the returns on investment, as well as to expand and diversify their investment opportunities.

- Mortgage financing has a stronger effect on consumption expenditures than do other forms of savings. House-price increases can lead to stronger increases in consumer demand than do rising stock markets, with the result that housing market trends may be more closely related to overall macroeconomic cycles. As mortgage markets deepen, there are greater opportunities for households to access this wealth. In particular, the ability to refinance allows families to spend the capital gains realized on rapid house-price increases.
- Furthermore, Mortgage finance makes it possible for people to acquire affordable housing as they have the option to own their homes and pay for them in affordable installments over time (Kibirige, 2006).
- The mortgage finance sector creates employment directly and indirectly particularly to the construction industry and indirectly to other sectors (Kibirige, 2006).

2.3.4 Funding Mortgage Loans

The willingness of financial institutions to make mortgage loans is of course not sufficient. They must also have access to the necessary funding. Retail deposits are being used to fund long term mortgage loans.While at first sight it might not seem prudent for short term deposits to be lent over say ten or fifteen years, in practice most housing finance systems work on this basis and do so safely.

According to Jay-sa-Aadu, 1997, Mortgage Bonds are another promising way of attracting capital into the housing sector. Non-bank institutions issue bonds which are sold to investors including long term institutional investors for the express purpose of financing housing. The bonds are backed by the full faith and credit of the lending institution, its assets and or in

some cases the government. He further emphasized the use of Secondary Mortgage Market and Securitization. The globalization of financial intermediation relies on a wide range of new products such as securitization and other synthetic assets to allocate risks of financial instruments to those better able to handle them. An alternative way to increase resources available for housing finance is to securitize the originated mortgages and sell them to long term investors.

2.4 Mortgage Terms

2.4.1 Mortgage Repayment

According to MC Donald & Thornton, (2008) Mortgage repayment is the same as amortization which derives from the Middle English for "Kill". It refers not to the borrower's murder, but to "killing off" the mortgage by paying it down over time. Repayment schedule is simply how the loan is to be repaid over a given period of time .The loan is repaid in fixed periodic payments usually monthly. The repayment period usually varies from country to country. For example in the USA; it could be between 15-30 years, (Scanlon & Whitehead, 2004) UK can be between 15-20 years. The mode of paying back the mortgage can be scheduled mortgage payment, prepaying through refinancing or resale, delinquency, and foreclosure (Liu *et al*, 1997). In Uganda one of the most important factors considered in appraising viability of a mortgage application is the capability of the borrower to repay their mortgage. Currently monthly repayments range between 30% - 40% of one's ascertainable monthly net income. (Kibirige, 2006)

2.4.2 Mortgage Risks

In mortgage financing, there are different customers from different backgrounds, and this exposes a lot of risk to both the borrower and the lender (Scanlon & Whitehead, 2004).The

major risks include Credit risk (default risk) to the lender that the borrower will default on loan obligations and investment risk where the owner-occupier that the value of the home will fall, and with it the value of the owner-occupier's equity (Lewis & Neave, 2008). J.Lea, 1990, defines default risk as that risk brought about when the market value of the property falls below the market value of the mortgage. Further there is Interest-rate risk to either party to a loan that the interest rate will move against them and finally prepayment risk to the lender that the borrower will repay a loan (particularly a fixed-rate loan) before the end of its term. In Uganda, real estate is also faced with the risk of unoccupancy. (Agaba *et al*, 2009)

2.4.3 Mortgage pricing

According to J.Lea, 1990, mortgage prices are principally determined by real interest rates and risk factors specific to mortgage instruments. Different from the above, Mortgages prices are determined basing on the inflation rates, nominal rates on one hand and housing prices on the other hand (Tsatsaronis & Zhu, 2004).But however from the two scholars, it's important to note that they both bring out the possibility of risk as being a determinant of mortgage prices. There are two basic methods for pricing mortgages namely cost-based and market – driven approach (Meidan, 1995). Cost-based is widely used in the general financial services sector. It involves calculating both direct and indirect costs for a mortgage, and then a profit element is added to the total costs (Avlonitis & Indounas, 2005). The main advantage of this method is that, if cost structures are known, the pricing task becomes simplified.

Market-driven pricing is based on the market price for the service, which is the overriding factor. This type of pricing is generally used in highly competitive environments where many players are offering similar services like mortgage lending (Meidan, 1995). There are two methods in this category: competitive pricing and differential pricing. Competitive pricing describes a situation in which the price is set according to what the market leader is charging.

Differential pricing takes into account the ability and willingness of the market segments to pay.

2.4.4 Mortgage insurance

Mortgage insurance is a specialist form of credit insurance which provides protection to the lender. In the event of a borrower defaulting on their loan and the property being taken into possession and sold but not at a price sufficient to cover the outstanding debt and costs then the insurance policy pays out to the lender.

One form is for the "top slice" of the loan to be insured, that is, for example, any amount in excess of say 70 percent of the valuation. An alternative is for a proportion of the whole loss to be met by the insurance company.

Mortgage insurance schemes can take various forms but a common feature of most schemes now, particularly after substantial losses were incurred on mortgage insurance business in the 1990s, is an element of co-insurance whereby the lender assumes some of the risk.

Most mortgage insurance, even in industrialized countries with sophisticated financial systems, is provided by specialist government agencies. These were often established in difficult and different circumstances when an element of government "pump priming" was needed to help a mortgage market develop. It proves very difficult in practice for such institutions to divest themselves of their business even when they are able to do so. In a few countries, notably the United Kingdom, mortgage insurance is provided by the major insurance companies. In the past this insurance has often been tied in with other forms of insurance, for example insurance of the houses being mortgaged. In America, in particular, there are a number of specialist private insurance companies, which are now seeking to operate internationally.

2.5 Mortgage Interest Rates

These to a great extent will determine affordability alongside the maturity. In Uganda, Interest rates range between 16% - 23% depending on the purpose of the mortgage (Kibirige, 2006). Usually owner occupier mortgages take the lower rate and it increases as one tends towards commercial mortgages. These rates are generally high and are attributable to the lack of long term local funding. In Egypt, another African country, mortgage lending rate equals to 14% with a margin of 4% over the prime lending rate (Hassanein & Barkouky, 2008). This leaves mortgage companies with only 1.5% which will be further decreased when attempting to securitize the mortgage loan and provide other guarantees.

2.6 Performance of Real Estate

Real Estate investors have long been aware of the challenges of translating the returns of property investment into reliable time- series data (Fisher & Goetzmann, 2005). This has been overcome by developing statistical risk and return inputs to allocation models through the construction of indices that reflect broad trends in diversified portfolio of investable properties. These include:-

- Time weighted rate of return,
- Internal rate of return and
- Simulation procedure.

Hammes & Chen, (2005) measure real estate performance by analyzing return on asset, Fisher, (2005), using the internal rate of return (IRR) to stimulated portfolios comprised of commercial properties, U.S .stocks AND U.S. bonds and Ooi & Liow, (2004) using systematic risk incorporated in the traditional Capital Asset Pricing Model (CAPM) to explain real estate returns.

Fisher, (2005), argues that stock and bond portions of the portfolio are re-balanced to accommodate the positive and negative cash flows required by real estate investing. This simulated IRR approach helps to examine the cross sectional distribution of real estate returns over the time period. He argues that inflation protection is one of the main reasons that institutions invest in real estate. Apart from risk, inflation and rate of return as measures of real estate performance, rental income has been the most preferred measure by investors, (Kohnstamm, 1995)

2.6.1 Rental Income

Rental income is a return gained after using a property for a particular period of times for example a house, land, building etc.

In Korea, the most popular type of rental income is called "chonsei." Under a chonsei arrangement, the tenant leaves a lump-sum deposit to the landlord at the beginning of the contract in lieu of monthly rents (Kyung –Hwan, 1990). At the end of lease, the entire deposit is returned to the tenant. In the meantime, the landlord invests the deposit and keeps the return. Chonsei is an ingenious but financially inefficient system. It essentially forces the landlords to serve as a financial intermediary at their own risk, even though they may not have the required skills or information. Tenants may not be able to assemble a large amount of money to make the deposit for the dwelling unit they desire and settle for a smaller unit, i.e., lower their housing consumption.

Rental income is usually determined by a number of variables over time for example the Gross Domestic Product (GDP), output, Employment for financial and business services, unemployment, interest rates and operating expenses in office space (Matysiak & Tsolacos, 2003).In retail sector, expenditure, retail sales and the GDP seem to be the most successful demand side indicators. In industrial market, the GDP and manufacturing output seem to be

the most significant variables. In general demand and supply and the economic variables will determine the rental income in real estate.

2.6.2 Return and Risk

Risk is expressed as an increase in the (mean preserving) spread of the probability distribution of future outcomes, whether the outcome is that of a space market (e.g., rent levels) or an asset market (e.g. return) (Wheaton *et al* 1999). Investors need to consider the risk/return characteristics of the investments available to them before investing in real estate (Considine, 2007).

CAPM states that the total expected return for an asset is equal to the risk-free rate (10-year Treasury yield), plus beta times the market return net of the risk free rate. Specifically, the expected return for an asset is determined by the covariance of its return with the return of the market portfolio (beta), the expected return of the market portfolio, and the risk-free rate of return (10-year Treasury). This means that CAPM attempts to quantify an asset's total expected return, adjusting for the risk of that asset relative to the market and the risk-free rate.

2.7 Relationship between Social Capital and Mortgage Financing

Social capital plays an important role in the degree of financial development (mortgage financing) in a particular country. (*Guiso*, 2004) According to Pittman (2008), for borrowers, social capital can affect the transaction environment they face both indirectly and directly, in three main ways. First, social capital can lead to a better flow of information between lenders and borrowers and hence less adverse selection and moral hazard in the mortgage market. Borrowers' decisions are influenced indirectly by the informational benefits supplied by their social network. Borrowers' social networks provide them with crucial and protective tools by means of information flows, which inform them of their options and enable them to

thoughtfully evaluate the advantages and disadvantages of a particular mortgage product (Burt, 1998). Borrowers with access to social resources are able to draw upon others for informational benefits, in terms of financial advice and guidance, to ensure that they receive the best available mortgage terms. Additionally, they may be advised on how to improve their credit standing to qualify for financing at lower interest rates. Hence, individuals could be buffered from being inappropriately channeled into higher-cost mortgages of the market if and when they could qualify for mortgages at lower or prime rates.

Secondly, borrowers' social network may serve as a filter of complex information. (Warde & Tampubolon, 2001) Social learning helps borrowers to distill information provided by mortgage officers or mortgage brokers when making the decision to take out a mortgage. "Given the volume of information that anyone can process, the network is an important screening device". Even when the information provided by one's network is "fuzzy or inaccurate" it may "signal something to be looked into more carefully". In the subprime sector, it is difficult for borrowers to shop around and fully understand the terms of their mortgages, due to the complexity of loan products. This complexity, combined with information asymmetries, may increase borrowers' susceptibility to being sold disadvantageous loan products. Intermediaries, therefore, play a critical function by providing warnings of unwarranted fees and informing prospective borrowers of what costs are excessive.

Finally, borrowers' social ties may directly determine their course of action (Zeng & Zhang, 2009).This occurs particularly when individuals are steered into a mortgage product, whether appropriate or inappropriate given their financial circumstances. When individuals rely on intermediaries, they may simply consent to mortgage product based upon the recommendation of those they trust.

2.8 Relationship between Mortgage Financing and Performance of Real Estate

Banks play a crucial role in the financing of real estate through mortgage financing. They lend for the purchase of land for development and existing buildings; they finance construction projects; they lend to non-bank and they finance companies that they may finance real estate; and they lend to non-financial firms based on real estate collateral (David & Zhu, 2004). In America, residential construction is peculiarly dependent on mortgage loans for example almost all one to four-family housing are being bought with the aid of mortgage loans,(Herzog & Earley 1970) and this has led to a tremendous growth in the real estate sector in this USA. According to Tirtiroglo, 1997, private investors seek mortgage financing (debt financing) for real estate assets because of tax benefits and or lack of sufficient equity funds. With improved mortgage facilities, the performance of the real estate in a particular country will rise in terms of less risk, higher returns and more rental income. These two variables are positively correlated. An improvement in one of them will automatically lead to the improvement in the other. With a poorly developed real estate finance market, it makes it difficult for firms or households to mobilise the capital tied up in real estate .This denies firms the opportunity to use real estate as collateral for raising investment finance.

2.9 Relationship between Social Capital and Performance of Real Estate

Social capital has been defined as the ‘‘resources embedded in a social structure which are accessed and/or mobilized in purposive actions’’. Social capital can be the social networks themselves, or as both the network structures and the resources channeling through the networks. (Kim & Subramanian, 2005)

Through networks, bridging and bonding social capital; resources like the mortgage financing have been channeled to the real estate investors and hence the performance of real estate has

been impacted on positively as more people will now be able to access the credit through increased information.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the Research methodology adopted to carry out the study. It covers the Research Design, Study Population, Sampling design, Sample size, Data Sources, Data collection instruments, Measurement of variables, Data analysis, Limitations to the study and how they were overcome.

3.1 Research Design

The study was a cross-sectional survey and quantitative design was applied throughout the research. Correlation was used to establish the relationship between Social Capital, Mortgage Financing and Performance of Real Estate.

3.2 Study Population and Sample Size

The study population consisted of real estate firms (80) according to AREA(Association of Real Estate Agents) Report 2009 and 30 firms real estate property developers; giving a total of 110. From the selected real estate's firm, managing directors were randomly selected from each of the 110 firms giving a sample of 110.

For the unit of inquiry, a population of mortgage beneficiaries from Housing Finance Bank (1200), DFCU Bank (700 members), Standard Chartered Bank (280), and Stanbic Bank (455) were used. For the mortgage beneficiaries, we used the sample size determination of Krejcie & Morgan (1970) which was 242. For a population of 2,635, the sample size was 242, (Krejcie & Morgan, 1970). The total population was 2,745.This is all shown in the table below.

Table 3.1: Distribution of Sample size among respondents

Category	Population	Sample
Real Estate firms	110	110
Real Estates investors	2,635	242
Total	**2,745**	**352**

Source; Primary Data

For the banks to get mortgage beneficiaries, the table below shows the sample size from each bank.

Table 3.2: Distribution of the Mortgage Beneficiaries from the different banks

Bank	Population	Sample
Housing Finance	1,200	110
DFCU	700	64
Standard Chartered	280	26
Stanbic Bank	455	42
Total	2,635	242

Source; Primary Data

A total of 352 questionnaires were administered to mortgage beneficiaries and real estate firms with an expected return of 324 after accounting for non response computed at a confidence interval 92%. After the exercise 297 questionnaires were collected posting a response rate of 84%.

3.3 Sampling Design and Procedure

In a bid to protect their clients, all the above mentioned banks when approached to provide us with information regarding people who had taken mortgages (mortgage beneficiaries); declined to do so. As a result, the researcher used purposive sampling to collect the 242 samples of mortgage beneficiaries.

3.4 Data Source

The study used both secondary and primary data.

- **Primary Data**

Primary data was collected from the property developers both Governments owned and private owned, financial institutions dealing in mortgage financing and the real estate investors who had benefited from the mortgage facilities in Kampala.

- **Secondary Data**

The major sources of secondary data were documentation from previous studies, property reports and magazines, data from National Housing and Construction Company about the performance of real estate, AREA, Mortgagors Association of Uganda (MAU), Financial Institutions, Bank of Uganda, Uganda Bureau of Statistics and many more.

3.5 Data Collection Instruments

The methods for collecting primary data included use of structured questionnaires .The questionnaires were prepared and delivered to respondents who were the real estate investors (mortgage beneficiaries) who have benefited from mortgages and from the real estate firms. The questionnaire consisted of mainly closed questions using a 5 point–scale ranging from 1-strongly disagrees to 5-strongly agree. The questionnaires were prepared in English but translated into Luganda (local language) for non-English speaking respondents.

Items in the questionnaire regarding social capital were developed from a frame work by Prof J C Munene (2007) who also looks at community social capital examining aspects like bonding and bridging social capital and social networks like the researcher. Regarding Mortgage financing items were developed from Lui & Lee (1997), Lymperopoulos et al, (2006) and Kanagwa (2008).Performance of real estate items were derived from Amidu *et al*

(2008) and Kohnstamm, (1995).Secondary data from the financial institutions was used to validate what the researcher already had.

3.6 Measurement of Variables

- Social capital (Community social capital) was measured using bonding social capital and social network (Narayan, 1999), bridging social capital by the density of associational activity or participation, or in other words the average per capita membership of an association (Beugelsdijk & Smulders, 2003).
- Mortgage financing was measured using interest rates for giving out mortgages and the terms given for advancing mortgages in order to establish the accessibility of the mortgages to the clients ,(Pittman, 2008).
- Performance of real estate was measured using rental income, risk and rate of return (Hammes & Chen, 2005), Ooi & Liow (2004) and Kohnstamm, (1995).

3.7 Validity and Reliability of the Instrument

For quality control, a pre-test of the research instruments to establish their validity was done. The instrument was given to individuals to give their opinion on the relevance of the questions using a 5-point scale of relevant, quite relevant, somewhat relevant, and not relevant.

- **Reliability**

Reliability is the extent to which a measurement is free of variable error. Reliability is usually achieved when repeated measures of the same stable attributes in the same objects show limited variation. Reliability was tested using pre-testing data sets and Cronbach's reliability. A Content Validity Index was used to assess the validity of each construct in the model while the reliability of the variables was assessed using Cronbach's alpha (1951). A cut off level of

0.5 was accepted. The reliability of the questions used in the study range from 0.821 to 0.976 which is above the acceptable minimum of 0.5, as seen in the table below.

Table 3.3: Reliability Analysis

Variable	No of items	Alpha Cronbach's coefficient
Social Capital	20	0.976
Mortgage Financing	14	0.821
Performance of Real Estate	8	0.913

Source; *Primary Data*

This indicates that the instrument used to collect data from the respondents was dependable and reliable and yielded good results.

3.8 Data Analysis

The data was collected and edited. The data was analyzed using computer package SPSS. The analysis was based on the questionnaires that were collected from the field and the results were interpreted to generate descriptive and inferential statistics such as the correlation coefficient and regression analysis for relationship between social capital, mortgage financing and real estate's performance and prediction purposes.

CHAPTER FOUR

ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter is a presentation, interpretation and analysis of the findings of the study whose objectives were; to establish the relationship between Social Capital and Mortgage Financing**,** to establish the relationship between Mortgage Financing and Performance of Real Estate, to examine the relationship between Social Capital and Performance of Real Estate**.**

4.2 Sample Characteristics

The demographic features of respondents include the category of the respondents, gender, age, and level of education, real estate sector, length of the mortgage and length of service in the real estate.

4.2. 1 Age of the Firm

Table 4.1: Age of the Firm

		Frequency	Valid Percent	Cumulative Percent
Valid	0-5 yrs	37	46.8	46.8
	6-10 yrs	39	49.4	96.2
	11-15 yrs	3	3.8	100.0
	Total	79	100.0	

Source; Primary data

As presented in table 4.1, the results showed that the majority of the real estate firms had been in existence for a period of 6-10 years (49.4%) compared to the 3.8% firms of more than 10 years. This implies that most real estate firms in Uganda have not existed for more than 10 years and most of them are new in the business.

4.2.2 Real Estate Sector

Table 4.2: Real Estate Sector

		Frequency	Valid Percent	Cumulative Percent
Valid	Brokerage & Sales	40	50.6	50.6
	Valuers	9	11.4	62.0
	Land Developers	12	15.2	77.2
	Building Developers	7	8.9	86.1
	Property Managers	11	13.9	100.0
	Total	79	100.0	

Source; Primary data

From table 4.2 the most populous real estate sector in Uganda was the brokerage and sales management with 50.6 % while the least populated was the building developers with 8.9%.This implies that most real estate firms in Uganda are involved in brokerage. This is partly because brokerage and sales management doesn't need a lot of initial capital. All that they need to do is to have property for the buyers and also the sellers. All the other sectors like building developers, land developers, require a lot of initial capital yet other sectors like valuation need a lot of knowledge and skills which is still lacking in Uganda.

4.2.3 Real Estate Type

Table 4.3: Real Estate Type

		Frequency	Valid Percent	Cumulative Percent
Valid	Residential Space	53	67.1	67.1
	Office Space	18	22.8	89.9
	Retail Space	6	7.6	97.5
	Industrial Space	2	2.5	100.0
	Total	79	100.0	

Source; Primary data

According to table 4.3, a total of 79 respondents in different mortgages participated in this study, 67% got mortgages for residential space, 23% mortgages in the office space, 8% mortgages in retail space and 3% mortgages in industrial space. This implies that most of the mortgages in Uganda are taken for residential development. Most Ugandans are building houses for settlement given the fact we still have a housing deficit of about 50,000 housing unit per year in Kampala alone.

4.2.4 Length of Service of the Real Estate Officer

Table 4.4: Length of Service of the Real Estate Officer

		Frequency	Valid Percent	Cumulative Percent
Valid	0-5 yrs	50	63.3	63.3
	6-10 yrs	25	31.6	94.9
	11-15 yrs	3	3.8	98.7
	16-20 yrs	1	1.3	100.0
	Total	79	100.0	

Source; Primary data

From the table 4.4 above, majority of the respondents have been in business for less than 5 years represented by 63.3% as compared to 1.3% who have been in business for more than 16-20 years, 32% who have been on business for 6-10 years and 4% who have been in business for more than 11-15 years. This explains why there are many hiccups in the sector with things like theft and fraud because of the inexperience.

4.2.5 Position within the Real Estate Firm

Table 4.5: Position of the Real Estate Officers

		Frequency	Valid Percent	Cumulative Percent
Valid	Top Management	43	54.4	54.4
	Middle Management	30	38.0	92.4
	Lower Management	6	7.6	100.0
	Total	79	100.0	

Source; Primary data

Table 4.5 shows that the majority of the respondents were in the top management in their real estate firms (54.4%) while the least of the respondents were from lower management with 7.6%.

4.2.6 Gender

Table 4.6: Gender of the Respondents

		Frequency	Valid Percent	Cumulative Percent
Valid	Male	125	57.3	57.3
	Female	93	42.7	100.0
	Total	218	100.0	

Source; Primary data

Table 4.6 showed that the majority of the respondents were male ((57.3%) while their female counterparts comprised only 42.7% of the sample.

4.2.7 Age Group

Table 4.7: Age group

		Frequency	Valid Percent	Cumulative Percent
Valid	**Below 20 yrs**	1	.5	.5
	20-30 yrs	84	38.5	39.0
	31-40 yrs	115	52.8	91.7
	41-50 yrs	18	8.3	100.0
	Total	218	100.0	

Source; Primary data

The table above (table 4.7) shows that the dominant age group was 31-40 years as noted from 52.8%. Only .5% was below 20 years of age.

4.2.8 Highest level of Education

Table 4.8: Highest level of Education

		Frequency	Valid Percent	Cumulative Percent
Valid	O & A level	82	37.6	37.6
	Diploma	102	46.8	84.4
	Degree	34	15.6	100.0
	Total	218	100.0	

Source; Primary data

The information sought from the respondents about their level of education revealed that 47% of them had graduated from a University with a diploma as compared to 38% who had O and A level certificate, and 16% who were degree holders, as presented in the table 4.8 above. The implication to these findings is that there is a great risk to the industry as many of these people are not highly educated and hence may not possess the necessary skills required to execute their duties. It's of little wonder that there are still many fraud cases and theft and unaccepted behavior in the industry today.

4.2.9 Real Estate Sector

Table 4.9: Real Estate Sector

		Frequency	Valid Percent	Cumulative Percent
Valid	Residential Space	101	46.3	46.3
	Office Space	46	21.1	67.4
	Retail Space	70	32.1	99.5
	Industrial Space	1	.5	100.0
	Total	218	100.0	

Source; Primary data

Table 4.9 shows that the most dominant real estate sector was the residential space as noted from 46.3% belonging to this category while the least sector was the industrial space with .5%. This implies that most mortgages in Uganda are taken for residential development. Most Ugandans are building houses for settlement given the fact we still have a housing deficit of about 50,000 housing unit per year in Kampala alone.

4.2.10 How long is your Mortgage

Table 4.10: Length of the Mortgage

		Frequency	Valid Percent	Cumulative Percent
Valid	Less than 5 yrs	159	72.9	72.9
	5-10 yrs	55	25.2	98.2
	11-15 yrs	4	1.8	100.0
	Total	218	100.0	

Source; Primary data

Table 4.10 shows that the majority of the respondents had mortgages that were less than 5 years (72.9%) compared to the 5-10 yrs mortgage with 25.2% and the 11-15 years with 1.8%. This could be partly because most financial institutions in Uganda do not offer long term sources of funding. They don't have funds enough to take for more than 5 years. They depend

on National Social Security Fund (NSSF), International Finance Corporation (IFC), and the Netherlands Development Finance Company (FMO) for borrowing which leaves them with insufficient funds to give out to the public.

4.3 Factor Analysis

Factor analysis was done to examine whether the constructs used were good measurements for the variables in the conceptual framework. The principal component analysis method and varimax rotation methods were used. Items with correlation coefficients of less than 0.5 were excluded from the rotation table. Factor analysis was further used in Correlation analysis.

4.3.1 Social Capital

Factor analysis for social capital was generated to explore the variable further while looking at the constructs of Bonding social capital, Bridging social capital and Social networks.

Table 4.3.1: Factor Analysis of Social Capital

Social Capital	Component		
	Bonding Social Capital	Social Networks	Bridging Social Capital
It is important for me to be polite to others all the time	.759		
The safety of my country is very important to me	.849		
It is important for me that things are not in a mess	.800		
People should follow rules at all times even when no one is watching	.761		
My family's safety is extremely important to me	.860		
It is important for me to do things the way I have learned them from my family		.654	
I always want to help the people who are close to me		.810	
I believe that I must be honest in any situation and always tell the truth		.776	
I want to be loyal to my friends and always to look out for their interests		.744	
It is important that every person in the world should be treated equally.		.807	
I like to stand out and to impress other people			.792
I make my own decisions about what I do			.713
I am ambitious and ready to work hard and get ahead			.821
I want people to admire what I do			.832
Thinking up new ideas and being creative in real estate is important to me			.756
Eigen Values	**13.834**	**1.051**	**0.686**
Variance %	**69.168**	**5.256**	**3.431**
Cumulative %	**69.168**	**74.424**	**77.855**

Source; Primary data

Factor analysis results for Social Capital indicated that the element of Bonding is of greatest influence at explaining this variable (69.168%) while Social Networks and Bridging Social Capital had variances of 5.256% and 3.431% respectively. On Bonding Social Capital, issues that emerged as very essential included the top priority of family safety to an individual (.860) followed by the safety of one's country (.849).This component was also characterized by Individuals politeness towards others (.759), ensuring that order is followed and there are no messes (.800).

4.3.2 Mortgage Financing

Factor analysis was generated to explore the variable of mortgage financing while looking at the constructs of mortgage terms and mortgage interest rates and how they affect the performance of real estate.

Table 4.3.2: Factor analysis of Mortgage Financing

Mortgage Financing	Mortgage Terms	Mortgage interest
The process of getting a mortgage in a bank is simple and short	.519	
Anyone can qualify for a mortgage in a bank as long as you have collateral security	.607	
Employees have the knowledge and competence to answer customer's specific queries and requests	.722	
Customers are satisfied with the way the bank handles their mortgage requests	.592	
Mortgage staff are effective ,skilled and able to action whatever critical incident take place	.688	
Authorization and approval of mortgage loan are promptly done	.822	
The approval process is appropriately done	.818	
The disbursements always fit in the clients plans	.629	
We are given adequate information while processing the loan	.543	
The repayment period given by the banks favors us		
Banks interest rates for mortgages in Uganda are affordable		.862
Banks interest rate remain constant for the whole period of the mortgage		.573
Banks require clients with mortgages to pay monthly repayments until the loan is cleared		.771
The mortgage prices in Uganda are affordable		.882
Eigen Values	5.012	1.631
Variance %	35.803	23.302
Cumulative %	35.803	59.105

Source; Primary data

Factor analysis results for mortgage financing indicated that the element of Mortgage Terms is of greatest influence at explaining this variable (35.803%) while Mortgage Interest had a variance of 23.302%. On Mortgage terms, issues that emerged as very essential included the top priority of the promptness of the authorization and approval process of mortgage loans

(.822) followed by whether the approval process is appropriately done(.818),further followed by the employees knowledge and competence to answer customer's specific queries and requests (.722).This component was also characterized by Mortgage staffs effectiveness ,skills and ability to action whatever critical incident take place (.688), whether the disbursements always fitted in the clients plans (.629) and whether anyone could qualify for a mortgage in a bank as long as they had collateral security(.607) ,among others.

4.3.3 Performance of Real Estate

Factor analysis was generated to explore the variable of performance of real estate while looking at the constructs of rental income, risk and return.

Table 4.3.3: Factor Analysis of Performance of Real Estate

Performance of Real Estate	Component		
	Rental income	Risk	Return
The real estate industry in Uganda has been developing in the past five years	.856		
Real estate investors have been able to get back what they invested in real estate in terms of rental income	.875		
The rental prices are rising high every day and the profits out of that are increasing too	.800		
The risk involved in real estate is minimal compared to other businesses in Uganda		.686	
The risk of the house not being occupied as a result of high rent in Uganda is minimal		.734	
The return from real estate investment is high compared to other businesses			.891
With increased social capital, the performance of real estate in Uganda will automatically become better			.515
Eigen Values	4.998	0.896	0.6
Variance %	62.476	11.198	7.499
Cumulative %	62.476	73.674	81.173

Source; Primary data

From table 4.3.3, performance of real estate in Uganda indicated that the element with the greatest influence at explaining this variable was rental income (62.476%) while risk and return had 11.198% and 7.499 respectively. With rental income, issues that emerged very essential were real estate investors have been able to get back what they invested in real

estate in terms of rental income (.875), followed by real estate industry in Uganda has been developing in the past five years (.856) and lastly the rental prices are rising high every day and the profits out of that are increasing too (.800).

4.4. Correlation

Correlation is a measure of association between two variables. The variables are not designated as dependent or independent. The correlation coefficients used was Pearson's product-moment correlation coefficient.

Table 4.4.1: Relationships between the variables

Pearson (r) correlations were employed to determine the relationship between the variables

	1	**2**	**3**	**4**	**5**	**6**	**7**	**9**
Bonding Social Capital-1	1.000							
Social Networks-2	.603**	1.000						
Bridging Social Capital-3	.515**	.780**	1.000					
Social Capital-4	.698**	.890**	.866**	1.000				
Interest-5	.207**	.334**	.351**	.408**	1.000			
Mortgage Terms-6	.450**	.482**	.528**	.563**	.277**	1.000		
Mortgage Financing-7	.481**	.517**	.516**	.600**	.587**	.672**	1.000	
Real Estate Performance-8	.609**	.768**	.788**	.886**	.323**	.561**	.614**	1.000
** Correlation is significant at the 0.01 level (2-tailed).								

Source; Primary data

4.4.2 Social Capital and Mortgage Financing

A positive relationship was observed to exist between Social Capital and Mortgage Financing ($r = .600^{**}$, $p<.01$). In addition all the components of Social capital were positively related to Mortgage Financing i.e. Bonding Social Capital ($r =.481^{**}$, $p<.01$), Social Networks($r = .517^{**}$, $p<.01$) and Bridging Social Capital($r = .516^{**}$, $p < .01$). This implies that if social capital is improved, it will help in the accessing of the mortgage finances for instance if an individual's family members have benefited from a mortgage, they are bound to recommend

the same to other family members which helps the mortgage financier benefit from the improved customer base.

4.4.3 Mortgage Financing and Performance of Real Estate.

A positive relationship was observed to exist between Mortgage Financing and Real Estate Performance ($r = .614^{**}$, $p<.01$).In addition all the components of Mortgage Financing were positively related to Real Estate Performance i.e. Mortgage Interest Rates($r = .323^{**}$, $p < .01$) while Mortgage Terms ($r =. 561^{**}$, $p < .01$).This implies that with increased mortgage finances, there will be increased acquisition of real estate in terms of land and buildings and as a result, there will be improvement in real estate performance in the country.

4.4.4 Social Capital and Performance of Real Estate

A positive relationship was observed to exist between Social Capital and Performance of Real Estate ($r = 886^{**}$, $p < .01$).In addition, all the components of Social Capital were positively related to Real Estate Performance i.e. Bonding Social Capital ($r = .609^{**}$, $p < .01$), Social Networks ($r = .768^{**}$, $p < .01$) and Bridging Social Capital ($r =.788^{**}$, $p <.01$).This implies that with increased social capital, there will be increased access to mortgage finances from financial institutions through the recommendations for example through family and friends, workmates etc and this will automatically lead to an increase in real estate performance.

4.5 REGRESSION

Simple regression is used to examine the relationship between one dependent and one independent variable. After performing an analysis, the regression statistics can be used to predict the dependent variable when the independent variable is known. Regression goes beyond correlation by adding prediction capabilities.

Table 4.5.1: Regression Model

The regression model was generated to explore the degree to which Social Capital and Mortgage Financing can explain the Performance of Real Estate.

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model	**B**	**Std. Error**	**Beta**		
Constant)	.073	.133		.547	.585
Social Capital	.705	.029	.807	24.334	.000
Mortgage Financing	.197	.049	.133	3.995	.000
Dependent Variable: Real Estate Performance					
R Square	0.797				
Adjusted R Square	0.796				

Source; Primary data

The results show that necessary efforts towards improving Social Capital and Mortgage Financing can explain at least 79.6% of the variance in Real Estate Performance (Adjusted R Square = .796). It was further observed that Social capital (Beta = .807) is more influential at explaining Real Estate Performance than Mortgage financing (Beta =. 133). The regression model was valid (sig. <.01).

Table 4.5.2: Regression Model for the components of the Independent and Dependent Variable

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		**B**	**Std. Error**	**Beta**		
1	(Constant)	.592	.133		4.453	.000
	Bonding Social Capital	.116	.030	.163	3.900	.000
	Social Networks	.196	.043	.261	4.544	.000
	Bridging Social Capital	.296	.040	.414	7.396	.000
	Mortgage Interest	.018	.031	.020	.561	.576
	Mortgage Terms	.129	.035	.149	3.709	.000
	Dependent Variable: Real Estate Performance					
	R Square	**0.716**				
	Adjusted R Square	**0.711**				

Source; primary data

The results show that necessary efforts towards improving Social Capital(Bonding Social Capital, Bridging Social Capital and Social Networks) and Mortgage Financing (Mortgage Interest and Mortgage Terms) can explain at least 71.1% of the variance in Real Estate Performance (Adjusted R Square = .711). It was further observed that Bridging Social Capital (Beta = .414) is more influential at explaining Real Estate Performance than Bonding Social Capital (Beta = .163) and Social Networks (.261).Among the components in Mortgage financing, it was Mortgage Terms(Beta =. 149) that were more influential at explaining Real Estate Performance than Mortgage Interest (Beta = .020). The regression model was valid (sig. <.01).

CHAPTER FIVE

DISCUSSIONS OF RESULTS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the discussion for the research findings, conclusions and the recommendations from the study. The discussions, conclusions and recommendations were made in accordance with the research objective.

5.2 Discussions

5.2.1 Social Capital and Mortgage Financing

The findings revealed a significant positive relationship between Social Capital and Mortgage Financing. The study has supported previous literature by other researchers that Social Capital and Mortgage Financing have a relationship. For example *Guiso*, 2004 who investigated the relationship between Mortgage Financing and Social Capital and found out that Social capital plays an important role in the degree of financial development (mortgage financing) in a particular country. Then Pittman (2008) explains further that Social Capital can lead to a better flow of information between lenders and borrowers and hence less adverse selection and moral hazard in the mortgage market. Secondly, borrowers' social network may serve as a filter of complex information. Finally borrowers' social ties may directly determine their course of action (Zeng & Zhang, 2009). Dimensions of social capital showed a significant positive relationship with mortgage financing: mortgage interest and mortgage terms

5.2.2 Mortgage Financing and Performance of Real Estate

Mortgage Financing was found to be significantly correlated to Performance of Real Estate. There was also a significant relationship between constructs of Mortgage Financing: Mortgage terms and Mortgage interest in terms of Performance of real estate. These finding

support earlier work that was done by David & Zhu,2004 where he emphasized the role of mortgage financing to real estate development through financing construction projects, lending for purchase of land for development and existing buildings, financing companies that they may finance real estate and lending to non financial firms based on real estate collateral. This is further supported by Herzog &Earley 1970 who argue that the tremendous growth in the real estate sector in the USA has been dependent on Mortgage Financing.

5.2.3 Social Capital and Performance of Real Estate

There was a significant positive relationship between social capital and performance of real estate according to the findings of the study. These findings support the earlier work posted by Kim & Subramanian, 2005 who define Social Capital as the resources embedded in a social structure which are mobilized in purposive actions. Social Capital can be social networks or as both the network structures and the resources channeling through the networks. Hence through networks, Bridging and Bonding Social Capital, resources like the Mortgage Financing have been channeled to the real estate investors and hence the performance of real estate being boosted up.

5.3 Conclusions

It is true that social capital is necessary for access of mortgage financing. This can be done through emphasizing bonding social capital. Bonding capital are those ties that are exclusive, inward looking, and generally formed among people who are socially homogenous. This will help in the accessing of the mortgage finances for instance if an individual's family members have benefited from a mortgage, they are bound to recommend the same to other family members which helps the mortgage financier benefit from the improved customer base. Another aspect of importance in bonding social capital should be the political stability in ones country.

Access to mortgage financing was found to be significantly correlated to performance of real estate. Elements of mortgage financing like mortgage terms and interest were found to be of strong influence to the performance of real estate. Mortgage terms appeared of top priority in which Promptness of the authorization and approval process of mortgage loans, appropriateness of the approval process, bank employee's knowledge and competence to answer customer specific queries and requests should be given more attention to allow easy access to mortgage financing and hence increase in the performance of real estate. However, financial institutions need to bear in mind the need for proper credit evaluation to minimize on default risk yet also provide the services (mortgage finances) in time.

Social capital and performance of real estate were found to be significantly correlated. This means that the higher the levels of social capital among the individuals, the higher the rate of mortgage acquisition by these individual hence leading to greater performance in the real estate sector in terms of more returns, less risk and more rental income.

5.4 Recommendations

- The Government should ensure political stability which is one of the factors that affect bonding social capital which is essential in boosting the real estate performance in Uganda.
- The employees in the financial institutions that give out mortgages in Uganda should be trained further to enhance their knowledge on the mortgage product so that they are competent enough to answer customer specific queries and requests.
- Banks that offer mortgages should ensure promptness of the authorization and approval process of mortgage loans and appropriateness of the approval process.

- The government through Bank of Uganda should implement policies that reduce on the interest rates that financial institutions charge on mortgages. Currently, Uganda has one of the highest interest rate for borrowing especially on mortgages compared to the other developed countries like the USA which charges 5% on their mortgages.
- A law should be passed where Ugandans can't build their own homes unless they go through real estate developers like it is done in the developed countries. This will reduce on the risk of non occupancy where developers have got stuck with houses because an ordinary Ugandan thinks it cheaper to build their own house rather than purchase the expensive homes from property developers.

5.5 Research Limitations

- Some respondents were not willing to participate. Respondents thought that the data was going to be used against them
- Limited access and scarcity of local primary and secondary data on mortgage finance beneficiaries in Uganda. The banks couldn't release their information regarding customers who benefited from mortgage financing for customer protection and also associations like Uganda Mortgages Association were hesitant to do so. The researcher had to use purposive sampling in order to get the questionnaires filled.

5.6 Areas of Further Study

1. It would be good if further research that involves mortgage terms within financial institutions in the whole country is carried out.

2. Further research on mortgage insurance and how it affects the final mortgage rate should be carried out.

3. The other area for further study would be to find out the effect of attitude on mortgage financing in Uganda and how it affects the performance of real estate.

4. Another study can be carried out on other factors that affect real estate performance in Uganda apart from mortgage financing and social capital.

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APPENDIX 1

MAKERERE UNIVERSITY BUSINESS SCHOOL
GRADUATE & RESEARCH CENTRE

Questionnaire for Mortgage Beneficiaries

Dear respondent, this instrument is designed to facilitate collection of data on **Social Capital, Mortgage Financing and Real Estate Performance: Case of residential housing in Kampala.** This is an academic study and all information collected shall be utilized purely for this purpose .You have been carefully selected to participate in this study because of your wealth of experience in this area and your response will be handled with utmost confidentiality. Thank you for taking time to record your insight on the subject. (Tick where appropriate)

Background formation

1. **Gender:**

Male	Female

2. **Age(in years)**

Below 20	20-30	31-40	41-50	Over 50

3. **Highest level of Education**

O/A Level	Diploma and Certificates	Degree	Post Graduate	Other(specify)

4. **Real Estate Sector**

Residential space	Office space	Retail space	Industrial space	Manufacturing space

5. **How long is your mortgage?**

Less than 5 years	5-10 years	11-15 years	Over 16 years

	PART A: Social capital	Strongly Agree (5)	Agree (4)	Not sure (3)	Disagree (2)	Strongly Disagree (1)
	Bonding Social Capital					
1	It is important for me to be polite to others all the time					
2	The safety of my country is very important to me					
3	I believe that people should be satisfied with what they have in real estate					

	PART A: Social capital	Strongly Agree (5)	Agree (4)	Not sure (3)	Disagree (2)	Strongly Disagree (1)
4	It is important for me that things are not in a mess					
5	People should follow rules at all times even when no one is watching					
6	My family's safety is extremely important to me					
7	It is important for me to fit in and do things the way other people do					
8	It is important for me to do things the way I have learned them from my family					
9	I always want to help the people who are close to me					
10	I believe that I must be honest in any situation and always tell the truth					
11	I want to be loyal to my friends and always to look out for their interests					
12	It is important that every person in the world should be treated equally.					
	Bridging Social Capital					
1	I like to stand out and to impress other people					
2	I make my own decisions about what I do					
3	Iam ambitious and ready to work hard and get ahead					
4	I want people to admire what I do					
5	Thinking up new ideas and being creative in real estate is important to me					
6	I like listening to people who are different from me in real estate industry					
7	Even when I disagree with them ,I still want to understand them and to get along with them					
8	It is important to get interested in real estate					
	PART B: Mortgage Financing					
1	Banks interest rates for mortgages in Uganda are affordable					
2	Banks interest rate remain constant for the whole period of the mortgage					
3	Banks require clients with mortgages to pay monthly repayments until the loan is cleared					
4	The process of getting a mortgage in a bank is simple and short					
5	The mortgage prices in Uganda are affordable					
6	Anyone can qualify for a mortgage in a bank as long as you have collateral security					
7	Employees have the knowledge and competence to answer customer's specific queries and requests					
8	Customers are satisfied with the way the bank handles their mortgage requests					

		Strongly Agree (5)	Agree (4)	Not sure (3)	Disagree (2)	Strongly Disagree (1)
9	Mortgage staff are effective ,skilled and able to action whatever critical incident take place					
10	Authorization and approval of mortgage loan are promptly done					
11	The approval process is appropriately done					
12	The disbursements always fit in the clients plans					
13	We are given adequate information while processing the loan					
14	The repayment period given by the banks favors us					
	PART C:Performance of Real Estate in Uganda					
1	The real estate industry in Uganda has been developing in the past five years					
2	Real estate investors have been able to get back what they invested in real estate in terms of rental income					
3	The rental prices are rising high every day and the profits out of that are increasing too					
4	The risk involved in real estate is minimal compared to other businesses in Uganda					
5	The risk of the house not being occupied as a result of high rent in Uganda is minimal					
6	The return from real estate investment is high compared to other businesses					
7	With increased social capital, the performance of real estate in Uganda will automatically become better					
8	Many of the residential, commercial and office space remains unoccupied due to the high inflationary tendencies that have brought in high rental prices					

Thank you for being helpful and may the Lord richly reward you.

APPENDIX 11

MAKERERE UNIVERSITY BUSINESS SCHOOL
GRADUATE & RESEARCH CENTRE
Questionnaire for Real Estate Firms

Dear respondent, this instrument is designed to facilitate collection of data on **Social Capital, Mortgage Financing and Real Estate Performance: Case of residential housing in Kampala.** This is an academic study and all information collected shall be utilized purely for this purpose .You have been carefully selected to participate in this study because of your wealth of experience in this area and your response will be handled with utmost confidentiality. Thank you for taking time to record your insight on the subject. (Tick where appropriate)

Background information

1. **Age of the firm**

0-5 Yrs	6-10 yrs	11-15yrs	16-20 yrs	Others (specify)

2. **Real Estate Sector**

Brokerage & Sales	Valuers	Land Developers	Building Developers	Property Managers

3. **Real Estate Type**

Residential space	Office space	Retail space	Industrial space	Manufacturing space

4. **Length of Service of the Real Estate Officer**

0-5 Yrs	6-10 yrs	11-15 yrs	16-20 yrs	Over 20yrs

5. **How would you rank your position within the real estate firm?**

Top management	Middle management	Lower management

SECTION ONE

	PART A: Social capital **Bonding Social Capital**	Strongly Agree (5)	Agree (4)	Not sure (3)	Disagree (2)	Strongly Disagree (1)
1	It is important for me to be polite to others all the time					
2	The safety of my country is very important to me					
3	I believe that people should be satisfied with what they have in real estate					
4	It is important for me that things are not in a mess					
5	People should follow rules at all times even when no one is watching					
6	My family's safety is extremely important to me					
7	It is important for me to fit in and do things the way other people do					
8	It is important for me to do things the way I have learned them from my family					
9	I always want to help the people who are close to me					
10	I believe that I must be honest in any situation and always tell the truth					
11	I want to be loyal to my friends and always to look out for their interests					
12	It is important that every person in the world should be treated equally.					
	Bridging Social Capital					
1	I like to stand out and to impress other people					
2	I make my own decisions about what I do					
3	Iam ambitious and ready to work hard and get ahead					
4	I want people to admire what I do					
5	Thinking up new ideas and being creative in real estate is important to me					
6	I like listening to people who are different from me in real estate industry					
7	Even when I disagree with them ,I still want to understand them and to get along with them					
8	It is important to get interested in real estate					

	PART B:Mortgage Financing	Strongly Agree (5)	Agree (4)	Not sure (3)	Disagree (2)	Strongly Disagree (1)
1	Banks interest rates for mortgages in Uganda are affordable					
2	Banks interest rate remain constant for the whole period of the mortgage					
3	Banks require clients with mortgages to pay monthly repayments until the loan is cleared					
4	The process of getting a mortgage in a bank is simple and short					
5	The mortgage prices in Uganda are affordable					
6	Anyone can qualify for a mortgage in a bank as long as you have collateral security					
7	Employees have the knowledge and competence to answer customer's specific queries and requests					
8	Customers are satisfied with the way the bank handles their mortgage requests					
9	Mortgage staff are effective ,skilled and able to action whatever critical incident take place					
10	Authorization and approval of mortgage loan are promptly done					
11	The approval process is appropriately done					
12	The disbursements always fit in the clients plans					
13	We are given adequate information while processing the loan					
14	The repayment period given by the banks favors us					
	PART C:Performance of Real Estate in Uganda					
1	The real estate industry in Uganda has been developing in the past five years					
2	Real estate investors have been able to get back what they invested in real estate in terms of rental income					
3	The rental prices are rising high every day and the profits out of that are increasing too					
4	The risk involved in real estate is minimal compared to other businesses in Uganda					
5	The risk of the house not being occupied as a result of high rent in Uganda is minimal					
6	The return from real estate investment is high compared to other businesses					
7	With increased social capital, the performance of real estate in Uganda will automatically become better					
8	Many of the residential, commercial and office space remains unoccupied due to the high inflationary tendencies that have brought in high rental prices					

Thank you for being helpful.